Annual Report 1987

NABISCO BRANDS LTD

Contents

COMPANY PROFILE: Nabisco Brands Ltd is one of Canada's foremost food and beverage manufacturers. The Company's origins date back to 1853 with the founding of Christie, Brown and Company, a maker of baked goods. Today, many of the Company's products are market leaders and its brands have been household words for generations, based on a tradition of quality that began in Canada more than 134 years ago.

Throughout this report, trade names, trade marks, or brand names owned by or associated with Nabisco Brands Ltd and its subsidiaries are shown in *italics*.

For additional copies of this Report, write to:
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Toronto, Ontario
Canada M5G 2A9

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Affaires générales
Nabisco Brands Ltée
1 Dundas Street West
Toronto, Ontario
Canada M5G 2A9

Country Fibre — the fibre cracker that is not only good-tasting but "good-for-you".

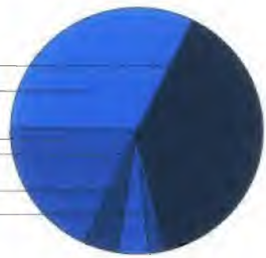
Nabisco introduced *Nabisco Spoon Size Shredded Wheat 'n Bran* cereal in 1987 for today's health-conscious consumers who want more fibre in their diet.

Financial Highlights

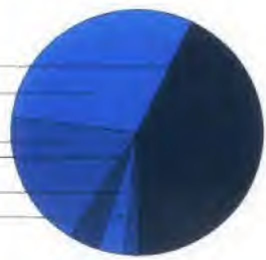
Financial Highlights (In Thousands Of Dollars)	1987	1986	1985	1984	1983
Net Sales	$ 822 015	$ 941 655	$ 961 332	$ 938 487	$ 907 213
Net Income	248 985	58 510	45 585	44 560	42 800
Working Capital	472 457	247 311	194 413	169 929	176 623
Capital Investment	27 418	19 548	21 894	21 146	24 823
Shareholders' Equity	583 121	350 136	307 626	278 041	279 481
Total Assets	$ 827 883	$ 658 802	$ 513 290	$ 483 059	$ 481 326
Total Debt	$ 18 974	$ 48 419	$ 52 622	$ 56 092	$ 59 469
PER CAPITA SALES	$ 31.32	$ 37.63	$ 38.28	$ 37.38	$ 36.33

Analysis of Revenue Dollar

	1987 %
Materials	39.0
Other Operating Expenses	31.6
Paid to Employees	19.0
Taxes (Excl. Excise)	4.6
Income Before Extraordinary Items	4.1
Depreciation & Amortization	1.7
	100.0



	1986 %
Materials	42.0
Other Operating Expenses	30.7
Paid to Employees	18.4
Taxes (Excl. Excise)	3.8
Income Before Extraordinary Items	3.4
Depreciation & Amortization	1.7
	100.0



J.R. MacDonald
Vice Chairman of the Board

R.J. Verdon
President & Chief Executive Officer

M.F.C. Emmett
Chairman of the Board (seated)

Executive Report

The past year must be described as unprecedented for Nabisco Brands Ltd. Along with a successful divestiture program whereby the Company sold a number of businesses that did not fit its long-term strategic plans, Nabisco restructured, streamlined and decentralized. Concurrently the Company accomplished a dramatic turnaround in its key food businesses and acquired a Biscuit business that will significantly increase its export activities.

Nabisco's ambitious, multifold strategy was driven by not only the need to compete in a Canadian food market that's characterized by low industry growth and shifting consumer needs but also by a desire to be more competitive in the global consumer products market.

Income Increase

Our success during the latter part of 1987 and in early 1988 has provided early confirmation that we are on the right path.

Despite the restructuring in 1987 and its impact on sales, income before extraordinary items increased to $33.4 million ($1.67 per share) from $32.5 million ($1.62 per share) in 1986. The discontinuance of certain operations and sales of other operations and assets resulted in a net extraordinary gain in 1987 of $215.6 million compared with a net extraordinary gain in 1986 of $26.0 million from such transactions. The result was net income of $249.0 million in 1987 ($12.45 per share), compared with net income in 1986 of $58.5 million ($2.93 per share).

New Strategies for Change

There were no less than four significant areas of activity in the past year:

- Identification of our core businesses and increased investment to ensure long-term growth in sales and profits.
- Divestment of businesses where analysis indicated that long-term growth was unlikely.
- A major initiative to achieve substantial cost reductions, improve operating efficiencies, and become a highly responsive organization.
- Repurchase of the approximately 20 percent of Nabisco Brands Ltd shares that were publicly owned.

Core Business Investment

Central to the strategy of the past year was the identification of the core strategic businesses which could predictably generate long-term growth in sales and profits. These included biscuits, cereals, canned fruits and vegetables, and some grocery items. Nabisco Brands has a strong market position in these core businesses, an essential ingredient for future success which we are confident can be extended through additions to these product lines and significant increases in advertising and promotional support programs. Indicative of its commitment to key businesses, Nabisco effected a nearly 70 percent increase in advertising expenditures in 1987. This new commitment led to a dramatic turnaround in 1987 with gains in volume and market share for nearly all major advertised brands.

Nabisco also considered acquisitions of additional products or businesses that complemented core lines. In February 1988 we completed the purchase of certain assets of the InterBake Foods Division of Weston Foods Ltd. These assets include, in particular, the United States export division and *Red Oval Farms* trade marks, notably the very popular *Stoned Wheat Thins* brand. The acquisition more than doubles Nabisco's export sales to the United States.

Divestments

Since 1986, we have sold certain businesses, assets and trade marks of our canned pet foods, wines and spirits, confectionery, yeast, desserts, margarine and food service beverage operations. These businesses were selected for divestiture because our analysis indicated that, for us, long-term growth was unlikely, reflecting such factors as weak market share positions, low profit margins, and increased competition from companies whose strategic commitments to those areas were markedly greater than ours.

The aggregate selling price for all these divestitures exceeded $600 million, representing about 34 times the annual earnings of the businesses divested.

The divestitures also served to maximize our balance sheet strength and at year end 1987, Nabisco Brands had $464.5 million in cash and short-term loans versus $171.0 million in 1986, and the net worth of the Company increased to $583.1 million from $350.1 million during the year.

Streamlining and Decentralization

We also recognized that our organizational structure and expenses had become excessive. Accordingly, as a part of the plan, we launched a major initiative to achieve substantial cost reductions and improve operating efficiencies. Employee teams across the Company assisted in the cost studies, eliminating activities and expenditures which did not directly contribute to the manufacture and marketing of our core products. The cost savings realized are being redirected to fund increased marketing support for our key product lines.

Integral to the streamlining process was the decentralization of our operating units to ensure that our Company continues as a highly responsive and flexible organization.

Share Repurchase

On April 14, 1988, Nabisco Brands Investments Ltd completed the repurchase of the approximately 20 percent of Nabisco Brands Ltd shares that were publicly owned.

The decision taken to repurchase these shares, first issued in August 1984, was based on a number of factors, including the cash surplus held by the Company, notwithstanding the Weston acquisition and reinvestment in core businesses.

Investors who purchased the shares at the $21 offering price in 1984, realized a 24 per cent compound annual return on their investment through the dividends paid during the past three and a half years and the repurchase price of $45.

Dedicated Employees

Our commitment to be viewed as a good corporate citizen remains unwavering. We believe that our renewed financial strength will make it possible for us to take advantage of additional investment opportunities that will prove beneficial to the Company, its employees, consumers, and the communities in which we operate. Following the repurchase of our shares, the Company had little outstanding debt and had approximately $200 million in cash and short-term investments available.

The past year was notable for its challenges and its accomplishments. It meant that our employees had to cope with and manage change as never before. Implementation of the strategic plan involved wrenching change for the people of Nabisco, who, to their credit, responded with professionalism and commitment.

In the process, our total employment declined by 2,400 to 3,700 as many people moved to other companies with the businesses we sold. We also provided relocation assistance for those whose jobs had been eliminated in the restructuring process. We express our appreciation to our employees for their efforts during the past year, and dedication to the Company's success.

In October 1987, Ray Verdon became President and Chief Executive Officer, succeeding R. E. Glover, who was appointed President of International Nabisco Brands. Mr. Verdon formerly held the position of Executive Vice President, Nabisco Brands Ltd, and President of Christie Brown & Co.

Outlook

It is difficult to imagine a more successful response to challenges than Nabisco Brands undertook in 1987 and as a result the Company entered 1988 with a renewed sense of mission and vitality. Our financial strength, improved operating structure, focus on core businesses, and growth momentum are all encouraging signs of future prosperity.

M. Emmett

M. F. C. EMMETT
Chairman of the Board

J. R. MacDonald

J. R. MacDONALD
Vice Chairman of the Board

R. J. Verdon

R. J. VERDON
President &
Chief Executive Officer

Biscuit Division

The Biscuit Division's prime objective in 1987 was to improve the sales volume and market share for its products — to achieve real growth. At the end of 1987, the Division had achieved these goals in both the cookie and cracker areas.

Cookie volume, for example, increased 4.2 per cent over 1986 and many products recorded substantial gains. Volume increases included 75.1 per cent for *Fudgee-O,* 15.6 per cent for *Oreo,* and 17.7 per cent for *Chips Ahoy!*

Christie crackers increased overall volume 4.3 per cent from 1986 with *Ritz* up 9.4 per cent and *Triscuit* achieving a 7.7 per cent increase in volume. *Premium Plus* volume grew by 2.7 per cent in 1987.

Three factors played a role in Christie's successful year: continued commitment to high-quality products; improved marketing; and organizational innovation.

The year was also a milestone for Christie Brown in new product launches.

Christie's made product history by introducing a line of fibre crackers and cookies with a "taste good" image. *Country Fibre*, whose advertisements underline "fibre on the pack and *Christie* in the taste," was Nabisco Brands' biggest new product launch in recent years. The line was introduced nationally in August of 1987 with a 30-week television advertising campaign, complemented by national in-store consumer promotion and direct mail.

Nabisco Brands is especially proud of the *Country Fibre* line. Developed in Canada and a North American "first", the products in the *Country Fibre* lineup combine a variety of dietary fibres with the great taste people expect from Christie. The launch was backed by outstanding results from Christie's largest consumer research study ever and supported by an extensive advertising campaign.

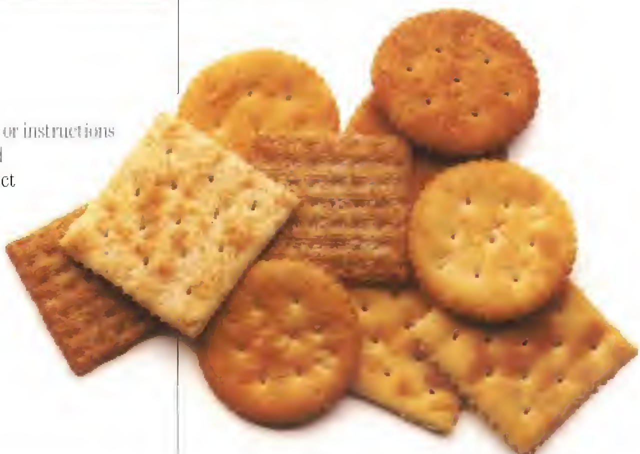
As part of the corporate strategy to concentrate our funds and efforts on building Nabisco's core brand businesses, Christie Brown in 1987 introduced several new line extensions. The Division added *Premium Plus* Whole Wheat, *Ritz* Whole Wheat and *Ritz 50%* Less Salt to its cracker family. *Fudgee-O Double Stuf* enjoyed considerable consumer success, as did the new *Peek Freans French* Vanilla Creme and *Peek Freans* Bran Crunch.

In marketing, the Division made major investments in advertising in 1987, with new television campaigns for *Ritz*, *Ritz* Whole Wheat and *Premium Plus* Whole Wheat, as well as a new *Mr. Christie* campaign which features *Oreo*, *Fudgee-O*, *Newtons* and *Chips Ahoy!*

On the organizational side, Christie's continued to look for ways to do things more effectively, particularly in areas affecting customer service. As an example, by year-end all Christie Brown sales people were using hand-held computer terminals to record sales orders and essential information. The information is sent to regional Christie Brown sales offices

which in turn may relay new information or instructions to the sales representative. This improved communication further accelerates product deliveries to the stores, thus ensuring an even fresher product for the consumer.

Together with the Grocery Division, the Biscuit Division is strongly committed to an aggressive capital spending program aimed at long-term competitiveness.



In 1988, for example, Biscuit will begin introducing a computer-integrated manufacturing system which will enable systems to be controlled either on-line or from a centrally controlled remote location. Along with new advanced technologies such as Near Infra-Red Spectroscopy (an on-line continuous measuring system), these investments will enable the Biscuit Division to continue improving on its already-high standards in manufacturing and quality control.

Christie's intends to build on 1987 successes to live up to its 1988 motto: "The best get better".

Grocery Division

On January 1, 1987, Nabisco integrated the operations of its Foods Division with Canadian Canners Limited, manufacturers of *Aylmer* and *Del Monte* products, to form the Grocery Division. It is responsible for Nabisco's complete line of breakfast cereals, canned fruits, pineapple, vegetables and tomato products, beverages, baking products and pet snacks.

In keeping with our strategy to meet changing market trends, the Grocery Division added *Nabisco Shredded Wheat 'n Bran* to its product line for consumers who want increased fibre in their diet. Acceptance by consumers and the trade has been excellent, indicating further growth potential for other innovative products for the health-conscious consumer.

Nabisco Raisin Wheats completed its national introduction in 1987 and achieved the best market share levels and volumes of any recent Nabisco new cereal launch. *Shreddies* continues to be Canada's number two cereal in popularity.

The sales of Grocery Division products were boosted, in part, with "new look" packaging to add contemporary design and appetite appeal to core brand products like *Shreddies, Nabisco Shredded Wheat* and *Del Monte* "No Sugar Added" Fruits.

The Division also initiated new advertising campaigns in 1987 to match the new cereal packaging. The Smothers Brothers appeared in national television campaigns for Nabisco cereals to humourously remind consumers that *Nabisco Shredded Wheat* contains no added sugar or salt.

Shreddies continues to be identified with the successful *Freddie & Eddie* cartoon characters and a new "all family" television campaign went on air during the year.

In vegetable products, the Grocery Division built on the popularity of the *Del Monte* and *Aylmer* trade marks with the launch of new corn and tomato products.

The launch of *Del Monte Summer Crisp* Corn was particularly noteworthy — consumer response far exceeded expectations. *Summer Crisp* Corn sold so well during its initial Ontario launch that the national launch date was advanced, with sales during the year contributing major volume and market share gains.

In tomatoes, *Aylmer* Whole Tomatoes with Herbs and Spices, launched in Quebec in 1986, was rolled out nationally and is now contributing to significant gains in market share. In addition, the successful national launch of *Del Monte* Italian Spice Stewed Tomatoes produced sales which indicate that this product is gaining a major part of the market for stewed tomatoes.

Aided by stronger merchandising and advertising programs, other *Del Monte* lines, including canned fruit and fruit juices, also achieved significant volume and share gains. In particular, *Del Monte's* unique 100 per cent pure fruit juice and unique juice blends in Tetra Pak packaging, enjoyed an enormously successful year.

Milk-Bone Pet Snacks, including the new *Milk-Bone* Dog Treats, launched during 1987, was another important contributor to the success of the Grocery Division. This new product contains real bone marrow. Marketing programs, including a new television campaign and a "frequent buyer" program for items such as dog tags and dog towels, helped Nabisco retain the largest share of the pet snack market in Canada.

Magic Baking Powder, a time-tested favourite with Canadian homemakers, continued to be the preeminent choice in this product category in 1987.

The Grocery Division has entered an exciting new phase.

Like the Biscuit Division, it now has added responsibility for its own product research and development, distribution, personnel, engineering and information systems. During the first quarter of 1988, Grocery moved to new divisional headquarters in suburban Toronto, near the Biscuit offices.

From these offices, Grocery will direct an aggressive plan which includes further new product launches and continued improvement and modernization of manufacturing facilities at all locations.

Together, these changes and plans closed out the Division's year on an upward trend.

Directors and Officers

Board of Directors

Paul Desmarais, Jr.
Montreal, Quebec
President
& Chief Operating Officer
Power Financial Corporation

Walter G. Dunnington, Jr.
New York, New York
Counsel to the President
& Chief Executive Officer
RJR Nabisco, Inc.

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New York, New York
Chairman
Burns Fry Hoare Govett Inc.
Chairman of the Board
Nabisco Brands Ltd

Gordon M. Farquharson, Q.C.
Toronto, Ontario
Partner
Lang Michener Lash Johnston

Jeannine Guillevin-Wood
St. Laurent, Quebec
Chairman of the Board,
President &
Chief Executive Officer
Guillevin International Inc.

John Loudon
London, England
Managing Director
N.M. Rothschild & Sons Ltd.

John R. MacDonald
Toronto, Ontario
Vice Chairman of the Board
Nabisco Brands Ltd

H. John McDonald
Toronto, Ontario
Chairman
Black & McDonald Limited

W. Earle McLaughlin
Montreal, Quebec
Director
Royal Bank of Canada

C. Richard Sharpe
Toronto, Ontario
Chairman &
Chief Executive Officer
Sears Canada Inc.

Kenneth D. Taylor
New York, New York
Senior Vice President
RJR Nabisco, Inc.

Raymond J. Verdon
Toronto, Ontario
President &
Chief Executive Officer
Nabisco Brands Ltd

Officers

Martin F.C. Emmett	*Chairman of the Board*
John R. MacDonald	*Vice Chairman of the Board*
Raymond J. Verdon	*President & Chief Executive Officer*
Stanley Heath	*Executive Vice President & President, Biscuit Division*
Edwin J. Korhonen	*Executive Vice President*
Ronald A. Adlam	*Vice President, Planning & Corporate Affairs*
Simon Gulden	*Vice President, General Counsel & Secretary*
M. Robert Langille	*Vice President Finance & Chief Financial Officer*
Gerald Rosenberg	*Vice President, Information Resources*
W.H. Michael Wilson	*Vice President, Personnel*
Frederick C.Z. Silk	*Vice President & Treasurer*
Margo A. Markey	*Assistant Secretary*
David W. Balmer	*Assistant Treasurer*
Teddy J. Jankowski	*Assistant Treasurer*
Paul M. Richardson	*Assistant Treasurer*

Audit Committee

Paul Desmarais, Jr. *(Chairman)*
Gordon M. Farquharson, Q.C.
Jeannine Guillevin-Wood
H. John McDonald
W. Earle McLaughlin

Compensation & Human Resources Committee

C. Richard Sharpe *(Chairman)*
Jeannine Guillevin-Wood
H. John McDonald
Kenneth D. Taylor

Executive Committee

John R. MacDonald *(Chairman)*
Martin F.C. Emmett
H. John McDonald
W. Earle McLaughlin
C. Richard Sharpe
Raymond J. Verdon

Financial Report

Auditors' Report to the Shareholders

We have examined the consolidated balance sheet of Nabisco Brands Ltd as at December 31, 1987 and the consolidated statements of income and retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Company as at December 31, 1987 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied, except for the change in the method of accounting for pension costs as described in note 8 to the financial statements, on a basis consistent with that of the preceding year.

January 20, 1988

Thorne Ernst + Whinney

Consolidated Statement of Income and Retained Earnings

Nabisco Brands Ltd
For the year ended December 31, 1987
(in thousands of dollars
except per share amounts)

	1987	1986
NET SALES	$ 822 015	$ 941 655
Cost of products sold	610 298	695 190
GROSS MARGIN	211 717	246 465
Selling, administrative and other expenses	167 946	184 371
	43 771	62 094
Interest expense, including interest on long-term liabilities of $2,920 (1986 - $5,855)	(13 190)	(7 051)
Interest Income	33 199	4 732
INCOME BEFORE TAXES AND EXTRAORDINARY ITEMS	63 780	59 775
Provision for taxes on income (Note 11)	30 350	27 300
INCOME BEFORE EXTRAORDINARY ITEMS	33 430	32 475
Extraordinary items (Note 9)	215 555	26 035
NET INCOME	248 985	58 510
RETAINED EARNINGS, beginning of year	343 725	301 215
	592 710	359 725
Dividends declared	16 000	16 000
RETAINED EARNINGS, end of year	$ 576 710	$ 343 725
Earnings per share:		
Income before extraordinary items	$ 1.67	$ 1.62
Net Income	$ 12.45	$ 2.93

Consolidated Statement of Changes in Financial Position

Nabisco Brands Ltd
For the year ended December 31, 1987
(in thousands of dollars)

	1987	1986
OPERATING ACTIVITIES		
Income before extraordinary items	$ 33 430	$ 32 475
Depreciation and amortization	14 246	16 458
Deferred income taxes	(2 306)	4 109
Change in operating working capital	54 564	(16 896)
Net funds from operating activities	99 934	36 146
FINANCING ACTIVITIES		
Debt repayment	(26 115)	(3 495)
Inter-company notes payable (Note 2)	(113 729)	129 669
Net funds (used for) from financing activities	(139 844)	126 174
INVESTMENT ACTIVITIES		
Fixes assets		
Additions	(27 418)	(19 548)
Proceeds from disposals	838	514
	(26 580)	(19 034)
Inter-company notes receivable (Note 7)	(179 058)	(11 045)
Other assets	(5 000)	—
Acquisition (Note 2)	—	(130 479)
Net funds used for investment activities	(210 638)	(160 558)
DIVESTITURES AND PLANT CLOSURES (Note 9)	381 770	132 860
DIVIDENDS PAID	(16 000)	(16 000)
NET GENERATION OF FUNDS	115 222	118 622
FUNDS (cash and short-term investments)		
— beginning of year	171 003	52 381
— end of year	$ 286 225	$ 171 003
CHANGES IN OPERATING WORKING CAPITAL		
Accounts receivable	$ 26 275	$ 10 977
Inventories and prepaid expenses	(5 003)	6 562
Accounts payable and accrued expenses	(3 862)	(22 808)
Accounts with parent and affiliates	23 086	(4 740)
Income and other taxes	14 068	(6 887)
Decrease (Increase) for the year	$ 54 564	$ (16 896)

Consolidated Balance Sheet

Nabisco Brands Ltd
For the year ended December 31, 1987
(in thousands of dollars)

ASSETS	1987	1986
CURRENT ASSETS:		
Cash and short-term investments	$ 286 225	$ 171 003
Accounts receivable	44 397	80 723
Income taxes recoverable	—	9 603
Due from parent and affiliates (Note 7)	178 275	—
Inventories (Note 3)	144 267	188 426
Prepaid expenses and other assets	5 442	10 717
Assets held for sale	—	1 475
Total current assets	658 606	461 947
DUE FROM PARENT (Note 7)	16 927	—
FIXED ASSETS (Note 4)	122 989	151 146
GOODWILL AND OTHER INTANGIBLES	29 361	45 709
	$ 827 883	$ 658 802

Approved on behalf of the Board:

Director

Director

Director

LIABILITIES	1987	1986
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	$ 131 638	$ 126 207
Due to parent and affiliates	4 070	77 690
Income taxes payable	44 434	—
Other taxes payable	875	3 566
Dividends payable	4 000	4 000
Current maturities of long-term liabilities (Note 5)	1 132	3 173
Total current liabilities	186 149	214 636
DUE TO PARENT AND AFFILIATES	13 270	14 149
LONG-TERM LIABILITIES (Note 5)	17 842	45 246
DEFERRED INCOME TAXES	27 501	34 635
SHAREHOLDERS' EQUITY:		
Capital stock (Note 6)	6 411	6 411
Retained earnings	576 710	343 725
	583 121	350 136
	$ 827 883	$ 658 802

Notes to Consolidated Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
   a) The consolidated financial statements include the accounts of the Company and all subsidiary companies and are prepared in accordance with generally accepted accounting principles as formalized by the recommendations of the Canadian Institute of Chartered Accountants.
   b) Short-term investments are carried at cost which approximates market value.
   c) Finished goods inventories and work in process are valued at the lower of cost and net realizable value. Raw materials and packaging supplies are valued at the lower of cost and replacement cost. Cost is determined principally on an average or first-in, first-out basis.
   d) Fixed assets are recorded at cost. Assets under capital leases are recorded at the present value of future minimum rental payments. For financial reporting purposes, depreciation and amortization expense is provided on a straight-line basis using estimated useful lives of ten to sixty years for buildings and two to forty years for machinery and equipment.
   e) Goodwill acquired after September, 1970 is being amortized over periods not exceeding forty years. Goodwill acquired prior to October, 1970 of $539,113 is not being amortized. Other intangibles are amortized for periods from ten to forty years.

2. ACQUISITIONS

On November 28, 1986 the Company acquired certain net operating assets and trade marks of Canadian Canners Limited, a subsidiary of RJR Nabisco, Inc., the Company's ultimate parent. The acquisition has been accounted for using the purchase method. Details of the transaction are as follows:

	(in thousands of dollars)
Net Assets Acquired at Assigned Values:	
Working capital	$ 75 894
Fixed assets	30 102
Goodwill	24 483
	$ 130 479

2. ACQUISITIONS (CONT'D)

Consideration Given:

Cash, including expenses relating to the acquisition	$ 810
Royalties payable through 1992 in respect of trade marks acquired, discounted to present value at 10%	10 000
Notes Payable, paid on November 30, 1987 which incurred interest at current short-term rates	113 069
Note Payable, due in ten annual installments starting November 28, 1987 and bearing interest at 10.5%	6 600
	$ 130 479

3. INVENTORIES

	(in thousands of dollars) 1987	1986
Finished goods	$ 101 505	$ 121 823
Work in process	153	3 789
Raw materials and packaging supplies	42 609	62 814
	$ 144 267	$ 188 426

4. FIXED ASSETS

	(in thousands of dollars) 1987	1986
Land	$ 3 445	$ 4 196
Buildings	31 931	53 050
Machinery and equipment	185 105	188 620
Assets under capital leases	991	5 521
	221 472	251 387
Less — Accumulated depreciation and amortization	98 483	100 241
	$ 122 989	$ 151 146

Notes to Consolidated Financial Statements

5. LONG-TERM LIABILITIES

	(in thousands of dollars) 1987	1986
9.75% Sinking fund debentures due December 15, 1997, guaranteed by Nabisco Brands, Inc. with sinking fund payments of $1,000,000 annually	$ 18 000	$ 19 000
Other, including capital lease obligations of $184,000 (1986 — $3,219,000) and mortgages on certain properties carrying interest rates ranging from 7.5% — 11.75%	974	4 594
14% Sinking fund debentures redeemed on March 30, 1987	—	24 825
	18 974	48 419
Less — current maturities	1 132	3 17[illegible]
	$ 17 842	$ 45 246

6. CAPITAL STOCK

	(in thousands of dollars) 1987	1986
a) Class A Special shares without nominal or par value.		
Authorized — unlimited number of voting Class A shares, convertible to common on a share for share basis; but otherwise participating equally with the common shares;		
Issued and fully paid 4,000,000 shares	$ 10	$ 10
b) Common shares without nominal or par value.		
Authorized — unlimited number of voting shares;		
Issued and fully paid 16,000,000 shares	6 401	6 401
	$ 6 411	$ 6 411

7. TRANSACTIONS WITH RELATED PARTIES

Transactions with the parent and affiliated companies are summarized below:

	(in thousands of dollars) 1987	1986
Sales	$ 17 783	$ 22 110
Purchases	16 987	3 242
Management and other charges, net	4 082	3 653
Royalties paid	3 568	3 162
Interest expense, net	8 076	—

The balance due from parent and affiliates includes a note receivable for $16,927,000 bearing interest at 9.5%, payable annually, and maturing November 15, 1992 and short-term loans for $177,671,000 payable on demand and bearing interest at current short-term rates and maturing in January 1988.

8. PENSION PLANS

The Company and its subsidiaries contribute to several pension plans covering substantially all eligible employees. The plans are defined benefit and are split between contributory and non-contributory.

The Canadian Institute of Chartered Accountants changed its recommendations on accounting for pension costs and obligations in April, 1986. Under the new recommendations, pension costs related to current service are charged to income for the period during which the services are rendered; actuarial gains and losses, the effects of plan amendments and changes in assumptions are amortized over the expected average remaining service life of the employee group.

Previously, it was the Company's policy to charge the amount funded to expense. The application of the new recommendations resulted in a decrease in net income of approximately $2,700,000.

The most recent actuarial valuation, as at December 31, 1986 was extrapolated to December 31, 1987 and indicated that the accrued benefit obligation was $157,901,900. The market value of the assets in the plans was $201,630,000 at December 31, 1987.

Notes to Consolidated Financial Statements

9. EXTRAORDINARY ITEMS

During 1987 the Company sold certain assets, and trade marks of its Pet Foods, Confectionery, Dessert, Food Service Coffee and Margarine operations for cash proceeds of $488,300,000. The gain on the sale amounted to $299,038,000.

On March 30, 1987 the Company redeemed its 14% Sinking fund debentures and incurred an early redemption penalty of $2,183,000.

During 1987 the Company made the decision to shut down marginal manufacturing facilities of the Foods Division. Provision for the one-time plant closure costs relating to asset write downs and severance expenses was $4,700,000.

With respect to the 1987 items above, the Company provided for income taxes payable of $76,600,000.

On July 2, 1986 the Company sold fixed assets, inventories and trade marks of the Canadian Yeast operations of the Fleischmann Division for net cash proceeds of $39,000,000. The gain on the sale amounted to $23,213,000.

On December 31, 1986 the Company sold its investment in a wholly-owned subsidiary, McGuinness Distillers Limited, to Heublein Inc. a subsidiary of RJR Nabisco, Inc., for cash proceeds of $65,000,000. The gain on the sale amounted to $17,997,000.

On November 24, 1986 the Company sold the trade marks of The Hervin Company, a wholly-owned subsidiary located in the U.S., to an affiliate, Nabisco, Inc., for $11,045,000 by way of a promissory note due November 15, 1987 and bearing interest at 6.16%. The gain on the sale amounted to $10,210,000.

As a result of the acquisition of Nabisco Brands, Inc., the parent company, by RJR Nabisco, Inc. (formerly R.J. Reynolds Industries, Inc.), the Company embarked on a major program to restructure its core businesses. The restructuring involved divestiture of certain of its non-core businesses and realignment of its operating divisions. As part of these activities, a major study was implemented to eliminate redundant overhead expenses. The provision in 1986 for costs to perform the study and implement the overhead reduction programs was $15,156,000.

During 1986 the Company made the decision to shut down marginal manufacturing facilities of the Foods, Confectionery and Wines & Spirits Divisions. Provision for one-time plant closure costs relating to asset write downs, severance and relocation expenses was $10,429,000.

With respect to the 1986 items above, the Company provided for income taxes recoverable of $10,565,000 with respect to the provision for costs and income taxes payable of $10,365,000 with respect to the gains on the sales.

10. OPERATING LEASE COMMITMENTS

The future minimum lease payments are as follows:

	(in thousands of dollars)
1988	$ 5 197
1989	5 548
1990	5 570
1991	5 641
1992	5 295
1993 and thereafter	19 082
	$ 46 333

11. INCOME TAXES

A reconciliation of the statutory income tax rate to the Company's effective income tax rate is as follows:

	1987	1986
Statutory rate in Canada (federal and provincial)	51.14%	51.34%
Reduction applicable to manufacturing and processing profits	(3.77)	(5.33)
Reduction resulting from inventory allowance	—	(.47)
Other, net	.22	.13
	47.59%	45.67%

12. BUSINESS SEGMENTS

During the year the Company was engaged in two main lines of business; Consumer Products and Food Ingredients Products. Consumer Products includes packaged foods, confectionery products, pet foods and also, in 1986, wines and spirits which are manufactured and/or sold for the most part under advertised brand names through grocery stores, supermarkets, confectionery stores and provincial liquor board outlets. Food Ingredients Products includes mainly coffee and oil based products sold to hotels and restaurants, flour, and also in 1986, yeast and other baking ingredients sold to bakeries. As a result of the divestitures (Note 9) the Company is presently engaged in a single line of business, Consumer Products.

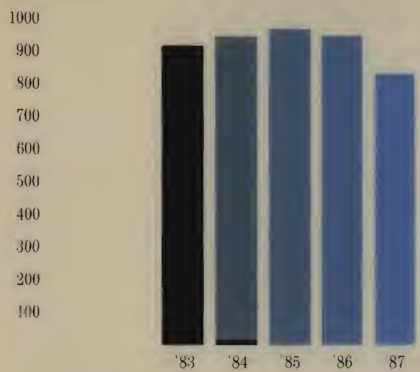
Notes to Consolidated Financial Statements

12. BUSINESS SEGMENTS (cont'd)

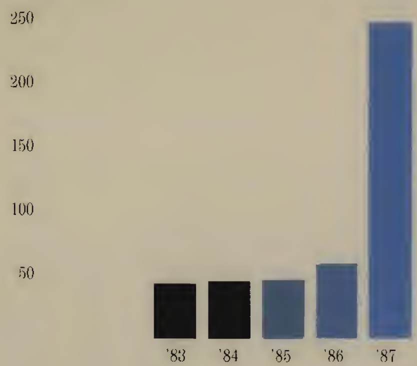
	(in thousands of dollars) 1987	1986
Segment sales:		
Consumer Products	$ 710 173	$ 761 953
Food Ingredients Products	111 842	179 702
	$ 822 015	$ 941 655
Segment operating profit:		
Consumer Products	$ 52 076	$ 65 459
Food Ingredients Products	14 306	13 005
	$ 66 382	$ 78 464
General corporate expense, net	$ 22 611	$ 16 370
Interest (income) expense, net	(20 009)	2 319
Income taxes	30 350	27 300
	$ 32 952	$ 45 989
Income before extraordinary items	$ 33 430	$ 32 475
Extraordinary items	215 555	26 035
Net Income	$ 248 985	$ 58 510
Identifiable assets:		
Consumer Products	$ 804 621	$ 547 870
Food Ingredients Products	23 262	110 932
	$ 827 883	$ 658 802
Capital expenditures:		
Consumer Products	$ 25 660	$ 13 243
Food Ingredients Products	1 758	6 305
Depreciation and amortization:		
Consumer Products	$ 12 185	$ 13 036
Food Ingredients Products	2 061	3 422

Five Year Financial Review

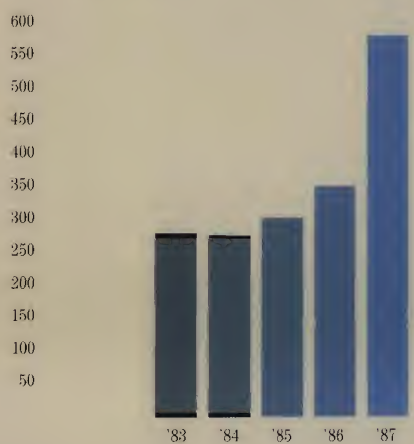
Net sales
(millions of dollars)



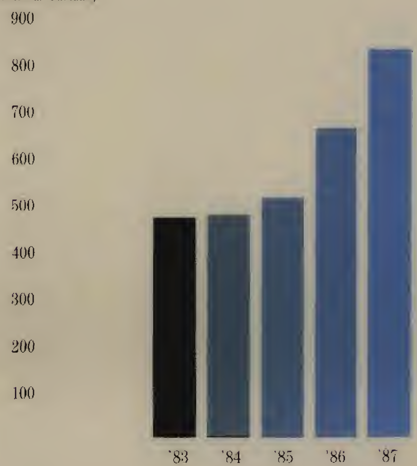
Net income
(millions of dollars)



Shareholders' equity
(millions of dollars)

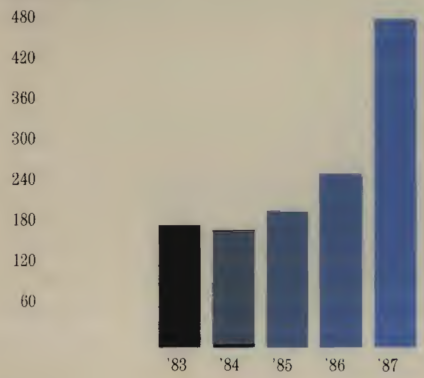


Total assets
(millions of dollars)

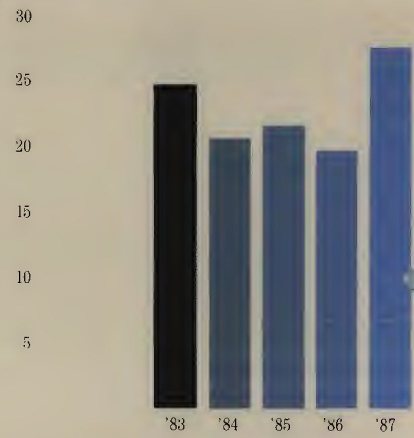


Five Year Financial Review
continued

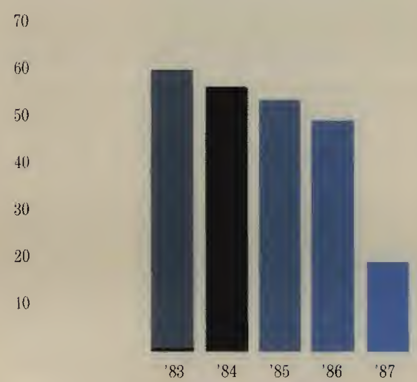
Working capital
(millions of dollars)



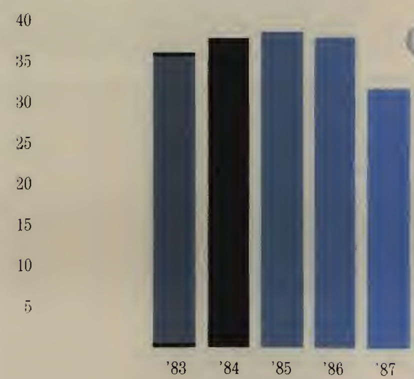
Capital investment
(millions of dollars)



Total debt
(millions of dollars)



Per capita sales
(dollars)



Products

BISCUITS

Christie Cookies

Apple Newtons
Arrowroot
Barnum's Animal Crackers
Chewy Chips Ahoy!
Chips Ahoy!
Chocolate Wafers
Chocolicious
Coffee Breaks
Country Fibre Oatmeal
Country Fibre Apple 'N Oatmeal
Country Fibre Digestive
Date Newtons
Favourites
Fig Newtons
Fudgee-O
Fudgee-O Double Stuf
Familia
Midget Snaps
Miniatures
Mountain Chocolate Grahams
Mr. Christie's Crisp 'N Chewy
Neapolitan Wafers
Oreo
Oreo Double Stuf
Oreo Mint Creme
Pantry
Pirate
Raspberry Newtons
Social Tea
Striped Chips Ahoy!
Sultana
Tea Treats
Vanilla Wafers

Christie Crackers

Bacon Dippers
Better Cheddars
Cheese Bits
Cheese & Green Onion
Cheese Nips
Cheese Ritz
Cheese Tid Bits
Country Fibre Crisp Wheat
Country Fibre Snack Crackers
Country Fibre Whole Wheat
Escort
French Onion
Ground Wheat Thins
Honey Maid Graham Wafers
Honey Maid Chocolate Graham Crumbs
Honey Maid Graham Crumbs
Hot 'N Spicy Cheddars
Hovis
Meal Mates
Milk Lunch
Old Fashioned
Old Fashioned Fibre
Premium Plus
Ritz
50% Less Salt Ritz
Sociables
Sour Cream & Chives
Spicy BBQ Thins
Swiss Cheese
Triscuit
50% Less Salt Triscuit
Vegetable Thins
Wheatsworth
Wheat Thins
Whole Wheat Premium Plus
Whole Wheat Ritz

Christie Snacks & Cones

Bits & Bites
Cadet & Comet Cones
Cheddar Flings
Cheddees
Mini Chips
Mister Salty Pretzels

Dad's Cookies

All Butter Shortbread
Apple 'N Oatmeal
Big Cookie Variety
Cookimos
Chips in Chocolate
Chocolate Chip
Chunky Chocolate Chip
Chunky Fudge
Coated Variety
Coconut
Cremes of the Crop
Date 'N Oatmeal
Family Pack
Goodie Rings
Mallows
Oatmeal
Oatmeal Chocolate Chip
Original Oatmeal
Raspberry 'N Oatmeal
Variety Pack

David Cookies

Assorted Mallows
Assorted Wafers
Chunks O' Chocolate
Crema Lait
Coconut Cream
Fig Bars
Ginger Snaps
Jelly Mallows
Maple Leaf
Petit Beurre
Petit Graham
Princess
Rainbow Mallows
Social Tea
Strawberry Tarts
Super Graham
Vanilla Wafers

Harnois Products

Aux Fruits
Favori
Galettes Royal
Papineau
Winsor

Peek Freans Biscuits

Arrowroot
Assorted Creme
Assorted Tea
Bourbon Creme
Bran Crunch
Celebration
Chocolate Chip
Dark Chocolate Digestive
Digestive
Family Assortment
Family Digestive
French Vanilla Creme
Fruit Creme
Ginger Crisp
Ginger Crunch
Golden Sugar
Milk Chocolate Digestive
Nice
Orange Chocolate Tea
PF Assorted
Shortcake

Crackers

Biscuits For Cheese
Cream Crackers
Water Crackers

GROCERY

Baking Aids

Aunt Dinah Molasses
Gillett's Creme of Tartar
Magic Baking Powder

Nabisco Cereals

Honey Bran Crunchies
Honey Bran Crunchies & Fruit
100% Bran
Cream of Wheat
Raisin Wheats
Rice Flakes
Shredded Wheat
Shredded Wheat 'N Bran
Shreddies
Shreddies & Raisins
Spoon Size Shredded Wheat
Team

Fruits & Beverages

Aylmer Canned Fruit
Aylmer Diet Deluxe Fruit
Aylmer Diet Deluxe Pudding Cups
Del Monte Canned Fruits
Del Monte Canned Pineapple
Del Monte Pudding Cups
Del Monte Fruit Cups
Coronation Cherries
Aylmer Canned Tomato Juice
Del Monte Tetra Pack 100% Juices
Del Monte Canned and Bottled Juices/Nectars & Drinks
Del Monte Dried Prunes
Hawaiian Punch Canned Drinks and Crystals

Soups & Vegetables

Aylmer Soups
Aylmer Baked Beans
Aylmer Canned Vegetables
Aylmer Canned Tomatoes
Del Monte Canned Vegetables
Del Monte Stewed Tomatoes
Lynn Valley Canned Vegetables
Lynn Valley Canned Tomatoes

Condiments

Aylmer Jams & Jellies
Aylmer Ketchup
Aylmer Pickles
Coronation Pickles, Condiments
Chun King Oriental Foods

Pet Snacks

Butcher Bones
Flavor Snacks
Milk-Bone

INDUSTRIAL PRODUCTS

Reid Flour